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Agenda item 115
Financial reports and audited financial statements, and reports of the Board of Auditors

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Note by the Secretary-General

The Secretary-General has the honour to transmit to the members of the General Assembly the comments of the Board of Auditors concerning action taken by the United Nations Development Programme, the United Nations Population Fund and the United Nations International Drug Control Programme towards removing the reasons that led to the qualified audit opinion on their financial statements for the biennium ended 31 December 1999, pursuant to paragraph 3 of General Assembly resolution 55/220 of 23 December 2000.

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Comments on measures taken by the United Nations Development Programme, the United Nations Population Fund and the United Nations International Drug Control Programme towards removing the reasons that led to the qualified audit opinion on their financial statements for the biennium ended 31 December 1999

1. In its resolution 55/220 of 23 December 2000, the General Assembly decided to defer action on the financial statements of the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA) and the United Nations International Drug Control Programme (UNDCP) for the period ended 31 December 1999, pending certification by the Board of Auditors that satisfactory progress is being made towards removing the reasons for the qualified opinions or that the matter has been resolved. The General Assembly decided to revert to this matter at its resumed fifty-fifth session.

2. UNDP, UNFPA and UNDCP have since informed the Board that they have drawn up plans to address the reasons that led to the qualified audit opinions. These plans include the following measures:

(a) Continued efforts to obtain audit reports in respect of the biennium 1998-1999;

(b) Setting targets to secure audit reports covering up to 95 per cent of expenditures incurred through governmental and non-governmental organizations;

(c) Proposals to revise a financial rule and related internal directives to require an increased level of audit coverage;

(d) More intensive focus by senior management on poorly managed projects and those with large expenditures;

(e) Closer monitoring and evaluation of audit plans and the timely submission thereof;

(f) Increased use of private audit firms where government auditors do not have the capacity to conduct audits.

3. The organizations have informed the Board that, since the audit opinions for the financial period ended 31 December 1999 were signed by the Board, the organizations have obtained additional audit reports as follows:

	Amount of national execution expenditure in 1998-1999 (millions of US dollars)	*Audit reports obtained to date of audit opinion (millions of US dollars)*	*Audit reports obtained as of 31 January 2001 (millions of US dollars)*	*Percentage of national execution expenditure covered by audit reports*
UNDP	2 878.9	1 460.5 (51%)[b]	1 935.3	67%
UNFPA	201.2	100.6 (50%)	132.0	66%
UNDCP	18.3	4.1 (22%)	16.1	88%

[a] The Board has not examined the audit reports received since the date of the audit opinion. Some of them may contain audit qualifications or scope restrictions relating to the individually executed projects covered.

[b] Together with the evidence that the Board was able to secure from its direct testing of selected national execution projects and of direct expenditures incurred by UNDP on national execution projects, the Board was able to secure evidence to support 75 per cent of UNDP's total national execution expenditure incurred in 1998-1999.

4. The Board is satisfied that, in principle, the plans developed by UNDP, UNFPA and UNDCP provide an adequate basis at this time for improving the extent to which national execution expenditure is covered by audit reports. If achieved, this should result in a steady and significant progress over coming financial periods towards removing the reasons which led to the qualified audit opinions. In its audits, the Board will continue to examine the receipt of audit reports and the level of audit assurance that these reports provide. The Board also recognizes that the underlying problem needs the close cooperation of implementing partners if it is to be fully and satisfactorily resolved. The Board's audit opinions on these organizations will, inter alia, continue to be based on the level of audit assurance obtained.

5. In the case of UNDP, the Board had also qualified its audit opinion in respect of unreconciled bank balances. UNDP has informed the Board that it has since reconciled and resolved $10.4 million of the $11.1 million unreconciled amounts as reported in the Board's report on the financial period ended 31 December 1999. The Board will review the progress made during its interim audit in the first part of 2001.

6. The Board trusts that these comments will assist the General Assembly in finalizing action on the financial statements of UNDP, UNFPA and UNDCP for the biennium ended 31 December 1999.

(Signed) Guillermo N. Carague
Chairman, Philippine Commission on Audit

(Signed) Shahid A. Bashir
Auditor-General of the Republic of South Africa

(Signed) Sir John Bourn
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland